

THE DRINKING WATER SRF and FINANCIAL FLEXIBILITY FOR NEWARK

ISSUE:

- The City of Newark is looking for financial assistance from New Jersey's Drinking Water State Revolving Fund (NJ-DWSRF) program to address concerns about lead in drinking water.
- The City is seeking \$75, million with 100% subsidy (no repayment of principal required), over a possible eight-year period.

BACKGROUND:

- The NJ-DWSRF program may not have sufficient funds to address Newark's request while also providing financing to other communities for infrastructure improvements needed to protect public health and ensure compliance with drinking water standards.
- EPA is working with NJDEP to maximize the flexibility of its DWSRF program.

KEY POINTS:

- **Existing Program Flexibilities:**
 - **NJDEP is a leader in using all available DWSRF program financial flexibilities**
 - *The DWSRF program provides grants, principal forgiveness (also referred to as 100% subsidy and as additional subsidization), loans, and combinations of these financing options (all of which have been used by the NJ-DWSRF program):*
 - Loan interest rates can vary from zero percent to market rate
 - Loan repayment periods can vary -- up to 30 years (40 years for disadvantaged communities via the America's Water Infrastructure Act of 2018 (AWIA)) or the design life, whichever is shorter.
 - *Leveraging* – NJDEP is one of only two states that has leveraged (provided additional funds for SRF loans via the sale of bonds) since the beginning of the DWSRF program in 1998.
 - ***Transfer of funds*** - Up to **33%** of a state's DWSRF Capitalization grant can be transferred between the Drinking Water and Clean Water SRF programs. NJDEP has fully utilized this option to transfer funds from the CWSRF to the DWSRF.
 - *Principal forgiveness for disadvantaged communities* – Under the AWIA, 6% to 35% of a state's DWSRF grant can be used for principal forgiveness for disadvantaged communities.
 - *Appropriations Acts' principal forgiveness and/or grants* – Appropriations Acts have provided varying percentages of a DWSRF Capitalization grant that can be used for principal forgiveness or for grants. NJDEP will utilize this option – \$49 M is currently available of which NJDEP proposes to use \$30 M for lead service line replacement.

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- The financial needs of drinking water infrastructure projects in NJ – and many other states – far exceeds the funds available from the NJ-DWSRF program:
 - In NJ Fiscal Year 2018 (7/1-6/30) NJDEP provided \$128 million in DWSRF financing.
 - Based on the latest Drinking Water Needs Survey, issued by EPA in 2018, NJ's drinking water needs are over \$400 million per year for the next 20 years.
- The DWSRF program is flexible, but flexibilities could be enhanced.
 - The program can adjust financial assistance based on public health needs, such as the recent need for financing lead service line replacement. NJDEP and Newark benefit from this flexibility
 - Existing limits on flexibility could be enhanced. For example, the 33% maximum transfer from CWSRF to DWSRF, and the 35% maximum principal forgiveness for disadvantaged communities, could both be increased.
- NJDEP is considering allocation of \$30 million in principal forgiveness for lead service line replacement. It proposes that Newark receive \$9 million in principal forgiveness for the recently awarded \$10 million lead service line replacement construction contract.
- While principal forgiveness and grants are important, they affect the long-term financial stability of the DWSRF program. (Loans provide repayments, whereas principal forgiveness is essential a grant, which is a one-time use of funds.)

ADDITIONAL BACKGROUND INFORMATION

CURRENT DWSRF PROJECTS IN NEWARK:

- Loan for \$16.6 million for rehabilitation of cast iron water distribution mains.
- Loan for \$2.2 million for emergency power generation at the Wayne pumping station, of which \$407,420 is principal forgiveness.
- Loan for \$12.5 million to replace the existing chlorine disinfection system.
- Loan for \$4.7 million for replacement of cast iron water distribution mains.
- \$10 million recently awarded contract for lead service line replacement; NJDEP's plan is for Newark to receive \$9 million in principal forgiveness.

EPA ASSISTANCE PROVIDED TO NJDEP/NEWARK:

- EPA has worked with NJDEP to fully utilize the transfer of funds from CWSRF to DWSRF, providing more funds for DWSRF projects such as the lead replacement project in Newark.
- EPA has worked with NJDEP to fully utilize Appropriations Acts' authority to use the remaining \$49 million in principal forgiveness.
 - \$30 million is planned to be used for lead service line replacement; \$9 million of the \$30 million is planned for Newark.
- The EPA will continue to work with NJDEP to provide maximum DWSRF flexibility to finance drinking water infrastructure projects, especially for lead service line replacement projects in Newark and elsewhere.